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SIPDIS

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STATE FOR WHA/PPC PUCETTI, DRL/IL DEL VECCHIO, AND WHA/CEN
STATE FOR OES/ENV JACKSON, OES/PCI SPERLING, AND WHA/EPSC
STATE PASS USAID FOR LAC/RSD: BARRY MACDONALD
DEPT. OF LABOR FOR ILAB: JANE RICHARDS

E.O. 12958: N/A

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SUBJECT: Proposal to Improve the Agribusiness Workplace in Honduras

Reftel: SECSTATE 26123

11. Summary: As per the referenced cable, Congress appropriated \$40 million (\$20 million in ESF and \$20 million in DA) in FY 2006 for trade capacity building in CAFTA-DR countries to be used in the areas of labor and the environment. This proposal is the second of three USAID/Honduras responses to the request for input and ideas for projects that meet the labor and environment trade capacity building priorities in Honduras. End Summary.

12. Justification: Improved labor productivity is critical for enhancing the competitiveness of the Honduran agricultural sector. The lack of adequate education on environmental regulations such as the proper use and handling of agricultural inputs (e.g. pesticides, fertilizer, equipment) and the lack of knowledge of labor law and regulations have created an increasing need to foster more effective employee/employer relationships in the workplace to address these problem areas and enable companies to remain competitive in local and international markets.

Further, relationships between employer and employee in the export-led agribusiness sector are becoming more and more important as companies realize that labor productivity is closely tied to business competitiveness. It has been widely recognized that a more harmonious labor/management relationship is an essential aspect of competitiveness in a more open economy. Hence, U.S. companies that produce agricultural goods for export in CAFTA-DR countries must recognize the growing global demand for better working conditions in order to enhance competitiveness, boost product quality, gain market access, expand market share, and attract foreign investment. Most importantly, firms must take the necessary steps to ensure that their bottom line is not threatened by poor labor practices that may undermine their base of customer support or efficiency of their workforce.

13. Description: The project aims to build and expand on existing work in the textile sector to foster partnerships among U.S. agribusiness companies, their commercial partners in the region, unions, employer's organizations, and NGOs that monitor labor/management relations to promote self enforcement and voluntary compliance with international labor standards and national labor laws. These partnerships will promote dialogue, education, and at the same time will implement a conflict resolution process through joint worker-manager training to increase the understanding of labor rights and obligations in the workplace. This will also

equip managers with labor management skills and tools that can be integrated into the company's management system. This project will complement USAID's trade capacity building activities with rural producers to support expansion and diversification into nontraditional value-added, agricultural products.

¶4. The expected outcomes are the following:

- mechanisms to enforce proper use and handling of pesticides and equipment used in agricultural activities established;
- understanding and compliance of environmental codes to protect the human and animal life improved,
- better understanding of worker benefits in a highly seasonal activity expanded,
- better understanding by management and workers of the link between productivity and competitiveness,
- workplace labor laws and standards infringement diagnostic and action plans developed,
- workplace codes of conduct and safety developed,
- management systems for compliance developed,
- conflict resolution mechanisms in the workplace designed, and
- overall compliance with international labor standards and national labor laws improved.

¶5. USAID's Global Development Alliance is the general umbrella under which the partnership would be developed. The cost-sharing formula used is a minimum of a 1:1 match between U.S. agribusiness private sector companies and USAID.

¶6. Advancing U.S. Policy Objectives: The proposed alliance structure will help promote not only voluntary compliance with labor standards by CAFTA-DR firms, but also will assist

their U.S. partners in demonstrating that their products are produced under labor conditions that meet international and national standards.

¶7. New or Related to Previous Work: At least one GDA alliance of this nature has been implemented, initially focused on the textile industry in Guatemala as a pilot program (Continuous Improvement in the Central American Workplace - CIMCAW) and then subsequently in Central America (Honduras, El Salvador, Nicaragua, Costa Rica and Dominican Republic), and involved U.S. private businesses as partners (Gap and Timberland). This activity will complement other proposed activities like "Strengthening Trade Unions' Effective Role with CAFTA and improving the culture of labor law compliance" in order to introduce and enforce a culture of labor law and safety compliance into the business environment.

¶8. Estimated Cost: We are hereby requesting \$1 million in USG financing and expect to receive at least \$1 million in private financing. All alliances will be built with the involvement of local private partners, including private businesses, think tanks, and other non-governmental organizations as required.

¶9. Public Diplomacy Strategies: The agricultural sector is a priority for the current GOH administration, and the Honduran government is placing greater attention on labor issues that might arise in the context of CAFTA-DR. The new Zelaya administration has ratified its interest in fostering agribusiness development in Honduras to create employment and increase agricultural product exports. The agricultural sector also plays an important role in the achievement of the GOH poverty reduction goals as more than 50 percent of the Honduran households are related to the sector. Further, 46 percent of the Honduran population lives in rural areas, where the poverty index is approximately 76 percent.

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